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5 Steps to Successful Energy Performance Contracting



Decide if energy performance contracting is a good solution for you.



Select an energy service company (ESCO).



Contract with your ESCO to identify energy saving opportunities.



Negotiate a long-term contract with your ESCO.



Verify savings and enjoy the benefits.

Step

Decide if energy performance contracting is a good solution for you.

Your first step is to consider how a performance contract would work for you. You will want to look at your facility needs, current staff capabilities and your potential to make improvements.

Find out if your facility is a good candidate for a performance contract.

Your ability to use energy performance contracting depends on whether there are significant energy-saving opportunities to interest an ESCO. See the Mini-Audit below.



Assemble a team. Put together a team within your organization should work together to explore the possibility of a performance contract. Include maintenance staff as well as financial, legal and procurement staff at the onset.

Assess ESCO services and benefits. ESCOs offer a wide variety of services including, financing, construction management, staff training and long-term maintenance services. Decide what is important for you. See [Is it Right for Me?](#)

Mini-Audit

Does your facility have more than 40,000 square feet of floor area?

**Do you spend more than \$40,000 a year on energy bills?
If so, an energy performance contract may work for you.
It is likely to benefit you even more if you have ...**

- Aging buildings or equipment;
- Recurring maintenance problems or high maintenance costs;
- Comfort complaints;
- Scarce budget resources;
- Too little energy management expertise;
- Too many demands on your maintenance staff;
- No recent upgrades of your lighting or controls systems; and
- Energy-using equipment that is ready for replacement.

Step 2.

Select an energy service company (ESCO).

The ESCO will be your partner for a long time, so it is important to select one that shares your vision and is able to meet your needs. A request for proposals (RFP) is an excellent way to identify interested ESCOs and compare approaches. See the [sample RFP](#).



Develop a facility profile.

Describe your facility's energy use, equipment, operating schedule, maintenance problems, and planned equipment replacement or renovation plans. Also include the utility bill history for the past three years if available. See the [sample RFP](#) for helpful guidelines.

Develop an RFP. Customize the sample RFP to set the ground rules for your project, then invite ESCOs to respond. A [list of ESCOs](#) serving Colorado is available.

Invite ESCOs to tour the facility. Interested ESCOs will need to visit your facility and interview facility staff before submitting their responses.

Evaluate the proposals. Evaluate the qualifications of each ESCO for the skills, expertise and experience you need. Interview the top contenders to better evaluate their approach to the project and ability to work with you. Keep in mind that it is too early to request cost estimates. Refer to the evaluation tips in the [sample RFP](#).

What can an ESCO do for me?

- Identify and evaluate energy saving opportunities;
- Provide engineering services from design to equipment specifications;
- Order and install equipment;
- Manage construction of a wide variety of projects;
- Provide long-term energy management and maintenance services;
- Guarantee performance and savings; and
- Arrange financing (if needed).

Step 3.

Contract with your ESCO to identify energy-saving opportunities.

Your ESCO will perform an investment-grade energy audit that identifies energy-saving opportunities and evaluates their potential. This provides you with critical information to later negotiate your performance contract. The ESCO will then prepare a project development agreement proposing a package of projects to include in the performance contract. See the [Sample Energy Audit and Project Development Agreement](#) with negotiating tips.

Negotiate an energy audit and project development agreement with your ESCO.

Establish criteria for the audit. The cost of the energy audit can be rolled into your performance contract. It must be paid in full if you do not sign a performance contract, so you need to have funds set aside. If your criteria are not met, you do not pay for the audit.

Review the energy audit. Review the technical and cost details presented in the audit and discuss the suggested improvements with your ESCO. Your ESCO will recommend a group of retrofits that optimizes cost-effectiveness and benefits.



Projects that pay for themselves in less than 10 years are ideal

- Heating: Replace aging boilers, steam traps and pumps.
- Cooling: Replace aging chillers, cooling towers or pumps.
- Ventilation and Distribution: Install variable speed fans or replace fan or pump motors.
- Controls: Install a new energy management control system or improve operational strategies.
- Lighting: Replace lamps and ballasts or entire fixtures.

Step 4

Negotiate an energy performance contract with your ESCO.

An energy performance contract is your road map for implementing and tracking the project over the term of the agreement. It should clearly define roles and responsibilities and explicitly state how savings are determined and how the guarantee will function. The [Sample Energy Performance Contract](#) offers negotiating tips.



Negotiate the scope and terms of the contract. Get input from your engineering, financial and legal staff. Negotiate costs and ask for open-book pricing to ensure that you receive good value.

Negotiate a guarantee to meet your needs. The guarantee is often the cornerstone of an energy performance contract. It usually covers the annual debt service and requires the ESCO to pay any remaining balance if expected annual savings are not reached.

Arrange financing. Your ESCO will help you secure financing unless you have your own financing source. The most attractive option for governments is usually tax-exempt financing with an annually renewable lease-purchase agreement.

Review maintenance requirements and services. In order to guarantee performance or savings, an ESCO often requires maintenance on new equipment. Additional services can include reviewing operation strategies, reporting on equipment operating problems, and repairing and replacing equipment.

Sample documents available

- Request for proposals (RFP) with evaluation criteria.
- Energy audit contract and project development agreement.
- Energy performance contract with negotiating tips.

Step

Verify savings and enjoy the benefits.

Follow-up monitoring helps ensure that you are getting full value from your energy performance contract. The success of the monitoring effort depends on the level of detail provided in the energy performance contract.

Approve the installation. Review the requirements detailed in the contract and check that all equipment was installed as specified. Also confirm that standards of comfort such as temperature and light levels were achieved.



Operate the building as agreed in the contract. The ESCO will maintain, monitor and verify the installation as specified.

Maximize benefits through trained staff. Your ESCO will train your facility staff in optimal operation of equipment and systems. This will help ensure savings and minimize future maintenance, while maximizing the life of the equipment.

Review the quarterly reports. Meet with your ESCO regularly to monitor your success.

Don't delay! Get started now and by next year you can be enjoying new equipment, improved comfort and reduced maintenance. Energy savings that could be paying for new equipment are wasted every day of delay!

Better Buildings Today Through Energy Savings Tomorrow

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A Program of the

Governor's Office of Energy Management and Conservation

225 East 16th Avenue, Suite 650 Denver, CO 80203

303-894-2383 or 1-800-632-6662

Updated: 05/20/2002